

are reinvested, should be of the soundest and most stable character.

This condition in itself implies a low rate of accumulating interest. It is obvious that where the term over which the sinking fund is to extend is short, a comparatively higher rate of interest may be legitimately adopted than can be prudently assumed when the period is a lengthy one, and accordingly comprises a greater number of possibilities of fluctuation of values. Foresight is more competent to a brief than to a prolonged range of vision. In the case now under consideration let us assume that a clear rate of 3 per cent may be depended upon as safe. Apart from adverse variations in the values of the securities selected for the investment of the instalments, and looking simply for illustration to the element of income tax, the adoption of 3 per cent implies a realised rate of about £3 3s. 2cZ. per cent, since £3 3s. 2d reduced by an income tax at 1s. produces the required 3 per cent. From a book of tables of compound interest we perceive that, at 3 per cent, an annual sum of £1 will accumulate to £47 11s. 6d. by the end of thirty years, so that by proportion, the sinking fund for restoration of the premium of £4 per cent will be about 1s. 5d. This result, as has been stated, demands that at least £3 3s. 2dL per cent is realised throughout upon the investment of each instalment of the sinking fund and upon the reinvestment of the interest obtained thereon. Hence, from the interest derived from the bond, the yearly sum of 1s. 5d. should be set aside and invested in respect of each £100 which the bond expresses. The security is thus rendered complete and exempt from loss, since £100 will be received on repayment of the bond, and the balance of the purchase money (or the £4 per cent) will be provided by the accumulated amount of the sinking fund.

2. A leasehold property may be purchased for £1000, and the unexpired leasehold period may consist of sixty years. At the end of that time the property reverts absolutely to the ownership of the freeholder or his assigns, and unless an adequate sinking fund has been maintained, the loss of

capital to the leaseholder is final. Proceeding in the same way as before, an annual sum of £6 2s. *Sd.* appropriated from the income will provide the restoration of the purchase-money.